

DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL & GAS

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CERTIFIED MAIL
RETURN RECEIPT REQUESTED

January 30, 2004

Randall D. Jones, Manager, Land and Negotiations
Aurora Gas, LLC
10333 Richmond Avenue, Suite 710
Houston, TX 77042

RE: Three Mile Creek Unit Application, Conditionally Approved

Dear Mr. Jones,

On December 23, 2003, Aurora Gas LLC (Aurora) filed an application for approval of the Three Mile Creek Unit on behalf of itself and Forest Oil Corporation (Forest) (the Applicants). Aurora holds approximately 79% and Forest 21% of the proposed unit area, located on the west side of Cook Inlet. The proposed unit area contains approximately 8,156 acres, including 5,596 acres (68.61%) within two State of Alaska oil and gas leases and 2,560 acres (31.39%) within two leases issued by Cook Inlet Region, Incorporated (CIRI). The Applicants proposed that the State and CIRI jointly manage the Three Mile Creek Unit.

The Department of Natural Resources, Division of Oil and Gas (the Division) received no comments on the Application during the thirty-day public comment period. The Division and CIRI proposed modifications to the Application as originally submitted and negotiated an acceptable plan of exploration, the appropriate unit area, and amendments to the proposed unit agreement with the Applicants. The attached Three Mile Creek Unit Agreement (Agreement) and accompanying initial Plan of Exploration (POE), which is Exhibit G to the Agreement, contain the terms and conditions agreed to by the Division, CIRI, and the Applicants.

The Applicants identified two natural gas prospects within the unit area, the Three Mile Creek and the Olson Creek prospects. They committed to acquire new seismic data over the unit area, drill an exploration well in each prospect, and obtain approval of a participating area during the three-year term of the Agreement, subject to the conditions contained in the POE.

The Division reviewed the statutes, regulations, and materials supplied by Aurora in support of the Application. The Application, as amended with the conditions contained in the attached Agreement and POE, meets the criteria in 11 AAC 83.303. Approval of the Application is necessary and advisable in the public interest to conserve natural resources, avoid waste, and protect the interest of all interested persons including the state and the public. The Agreement is intended to protect the public interest, in part, by ensuring that the unit area will be adequately explored and brought into production within a reasonable time. If the Applicants fail to timely explore or obtain approval of a

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participating area, the unit will terminate and the Applicants shall pay the State for the lost opportunity to re-lease the acreage.

On January 29, 2004, the Division received confirmation letters from Aurora and Forest accepting the modifications to the Application contained in the attached Agreement and POE. The two State leases, ADL 388232 and ADL 388233, are due to expire on January 31, 2004. Because DNR, CIRI, and the working interest owners continued negotiations through yesterday, the Division is issuing this decision today to extend the State leases under unitization, and will issue a complete evaluation of the Application by March 26, 2004, in compliance with 11 AAC 83.316. CIRI also plans to approve the Application today.

The Division conditionally approves the Application under the terms set forth in the attached Agreement. The Division's approval of the Application is expressly conditioned on the working interest owners' execution and delivery of the attached Agreement to the Division within thirty days of issuance of this decision, by March 1, 2004. The unit operator must also submit revised Exhibits A and B to the Agreement that reflect the revised tract numbers and legal descriptions of the approved unit area. If the working interest owners timely execute and deliver the attached Agreement, this decision will be effective as of 12:01 a.m. on January 31, 2004. However, if the working interest owners do not deliver the executed Agreement by March 1, 2004, the Application is denied, the State leases expired on January 31, 2004, and the State will re-offer the acreage in the 2004 Cook Inlet Areawide Lease Sale.

A person affected by this decision may appeal it, in accordance with 11 AAC 02. Any appeal must be received within 20 calendar days after the date of "issuance" of this decision, as defined in 11 AAC 02.040 (c) and (d), and may be mailed or delivered to Thomas E. Irwin, Commissioner, Department of Natural Resources, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1-907-269-8918; or sent by electronic mail to dnr_appeals@dnr.state.ak.us. This decision takes effect immediately. If no appeal is filed by the appeal deadline, this decision becomes a final administrative order and decision of the department on the 31st day after issuance. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

Sincerely,

Original signed by Mark D. Myers, Director

Mark D. Myers
Director

Attachment: Three Mile Creek Unit Agreement

cc: James D. Arlington, Forest Oil Corporation
Kirk McGee, CIRI
Jeff Landry, Department of Law
Dan Seamount, AOGCC